

HOUSE BILL REPORT

SHB 1802

As Reported by House Committee On:
Economic Development, Agriculture & Trade

Title: An act relating to property tax exemptions for nonprofit organizations for small business incubators which assist in the creation and expansion of innovative small commercial enterprises.

Brief Description: Authorizing a property tax exemption for certain nonprofit organizations located in economically disadvantaged areas.

Sponsors: House Committee on Economic Development, Agriculture & Trade (originally sponsored by Representatives Kilmer, Walsh, Pettigrew, Strow, Wallace, Kenney, Clibborn, Hankins, McCoy, Haler, Blake, McCune, Linville, P. Sullivan, Grant, Kessler, Simpson, Morrell, Williams, O'Brien, Lantz, Eickmeyer, Chase, Haigh, Hasegawa, Hudgins and Moeller).

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 1/24/06, 1/31/06 [DP2S].

Brief Summary of Second Substitute Bill

- Provides a state property tax exemption for real and personal property used by a qualified nonprofit organization located in a rural county, a county with a community empowerment zone (CEZ), or in a CEZ so long as the property is used to assist startup and expanding businesses.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass. Signed by 20 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Appleton, Bailey, Blake, Buri, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kilmer, McCoy, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

Minority Report: Do not pass. Signed by 2 members: Representatives Kristiansen, Ranking Minority Member and Kretz.

Staff: Tracey Taylor (786-7196).

Background:

Property taxes apply to the assessed value of all taxable property, which includes all real and personal property located within the state, unless specifically exempted. Real property includes land, structures and certain equipment that is affixed to the structure. The assessed value of real property is determined by the county assessor. Personal property includes machinery, supplies, certain utility property and items which are generally moveable. Owners of personal property list the items, their acquisition cost and the year acquired with the county assessor each year. The assessor then determines the current assessed value.

Property tax rates consist of the annual levy rates applied to the assessed value of taxable property by the various taxing districts, including the state and various local jurisdictions which have levy authority under state law. As of 2004, there were 1,769 taxing districts throughout the state. A taxing district's rate must be applied uniformly throughout the district. However, because many of the jurisdictions overlap, there are about 3,150 code areas in which a particular combination of levy rates may apply.

Property tax exemptions are allowed under certain conditions. They include publicly owned property, property owned by nonprofit organizations, household goods and personal effects.

Summary of Second Substitute Bill:

A state tax exemption is provided for real and personal property owned or used by a qualified nonprofit organization, if the property is used to assist start-up and expanding businesses. The property must also be used to provide the shared use of equipment and work areas as well as the daily technical resources and management support services that enable entrepreneurs to transform private activities into successful businesses. In order to qualify, the property must be located in a rural county, a county with a community empowerment zone (CEZ), or in a CEZ.

The qualified nonprofit organization must be organized and conducted for nonsectarian purposes and be qualified for exemption under section 501(c)(3) of the federal internal revenue code. The nonprofit organization must also be governed by a board of directors consisting of at least five volunteer members.

The state levy shall be reduced to prevent the remaining taxpayers from experiencing a higher tax rate as a result of this exemption.

The tax exemption will be applied to taxes levied for collection beginning in 2007.

In 2010, any nonprofit organization claiming this exemption must report to the Department of Revenue (DOR) the number of businesses served by the nonprofit organization and the types of services provided. Failure to submit the report will render a nonprofit organization ineligible for the exemption. The DOR shall compile this information and share it with the appropriate committees of the Legislature.

The exemption may not be taken after January 1, 2016.

Second Substitute Bill Compared to Substitute Bill:

The substitute bill eliminates the rollback provisions and clarifies that the exemption applies through the 2015 tax year. In addition, the language regarding the state levy reduction is further clarified. Finally, the tax year when the exemption first applies is updated.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: Small businesses are the heart of the economy, but Washington has a high business failure rate. Small business incubators (SBIs) help small businesses. By easing the tax burden on the nonprofits operating the SBIs, we prevent the operating costs of these facilities from getting too high and being passed onto the entrepreneurs utilizing the SBI. If a SBI is operated by a public entity, state agency or a city, the SBI facility would not be taxed. This simply puts the nonprofit operated SBIs on the same footing as the other SBIs. And for many of these nonprofit SBIs, the tax bill can be quite a large chunk of their overall operating budget. Most other states already exempt the nonprofit SBIs from property taxes and studies have shown \$45 in local tax revenue due to the SBIs for every \$1 of property tax exempted -- not a bad return on an investment.

Testimony Against: None.

Persons Testifying: Representative Kilmer, prime sponsor; Lincoln Ferris and Tim Strege, Washington Association of Small Business Incubators; Colleen Hall Barton, William Factory Small Business Incubator; and Luz Guterrez, Rural Community Development Resource.

Persons Signed In To Testify But Not Testifying: None.